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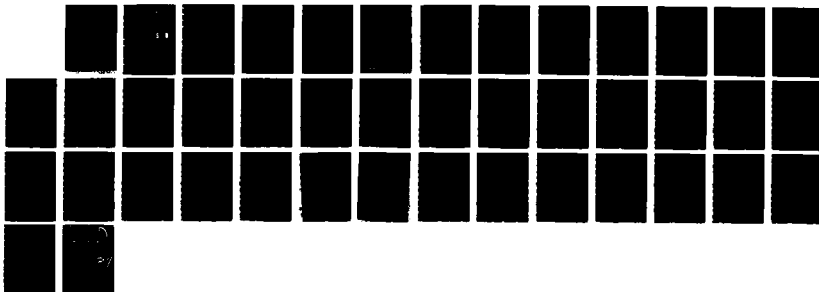
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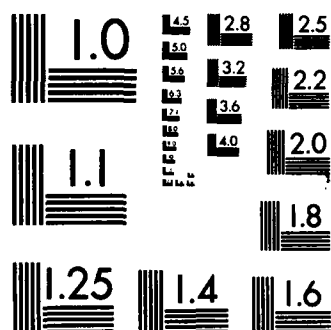
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Country Assessments and the Philippines

Jeffrey D. Simon

March 1987

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SECURITY CLASSIFICATION OF THIS PAGE (When Data Entered)

REPORT DOCUMENTATION PAGE		READ INSTRUCTIONS BEFORE COMPLETING FORM
1. REPORT NUMBER N-2588-OSD	2. GOVT ACCESSION NO. A184112	3. RECIPIENT'S CATALOG NUMBER
4. TITLE (and Subtitle) Country Assessments and the Philippines		5. TYPE OF REPORT & PERIOD COVERED Interim
		6. PERFORMING ORG. REPORT NUMBER
7. AUTHOR(s) Jeffrey D. Simon		8. CONTRACT OR GRANT NUMBER(s) MDA903-85-C-0030
9. PERFORMING ORGANIZATION NAME AND ADDRESS The RAND Corporation 1700 Main Street Santa Monica, CA 90406		10. PROGRAM ELEMENT, PROJECT, TASK AREA & WORK UNIT NUMBERS
11. CONTROLLING OFFICE NAME AND ADDRESS The Office of the Secretary of Defense Department of Defense Washington, DC 20301-2600		12. REPORT DATE March 1987
14. MONITORING AGENCY NAME & ADDRESS (if different from Controlling Office)		13. NUMBER OF PAGES 31
		15. SECURITY CLASS. (of this report) Unclassified
		15a. DECLASSIFICATION/DOWNGRADING SCHEDULE
16. DISTRIBUTION STATEMENT (of this Report) Approved for Public Release; Distribution Unlimited		
17. DISTRIBUTION STATEMENT (of the abstract entered in Block 20, if different from Report) No Restrictions		
18. SUPPLEMENTARY NOTES		
19. KEY WORDS (Continue on reverse side if necessary and identify by block number) Philippines Forecasting Civil Disturbances Government (Foreign)		
20. ABSTRACT (Continue on reverse side if necessary and identify by block number) See reverse side		

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→The collapse of Marcos's regime in the Philippines caught most observers off guard. Country assessments produced by U.S. government, Congressional, and private business sources before that downfall were examined to determine their usefulness for forecasting short-term developments. There was a remarkable consensus regarding the future of the Philippines, but none of them predicted Marcos's immediate downfall, which resulted from three factors: widespread corruption in the presidential elections, the defection of the military to the Aquino camp, and the role the United States played in pressuring Marcos to hold the elections and then to step down. Many of the issues identified as relevant to the Marcos regime are also relevant for the future of the Aquino administration. The insurgency poses a long-term threat. Immediate threats are civil unrest, military and governmental factionalism, and polarization among different political groups. Economic developments could also threaten the government's stability. →

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The Office of the Secretary of Defense

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PREFACE

This Note reports the findings of an examination of country assessments of the Philippines. The study was conducted in the Security and Subnational Conflict Program of RAND's National Defense Research Institute, an OSD-sponsored Federally Funded Research and Development Center. The study was sponsored by the Office of the Secretary of Defense. It formulates a new, and potentially more effective approach to political risk analysis and assessment of country instability. It should be of interest to policymakers whose responsibilities include reviewing such assessments.

SUMMARY

The collapse of the regime of President Ferdinand Marcos of the Philippines caught most, if not all, observers off guard. While there was widespread concern about the future stability of the country prior to Marcos's fall, the speed with which developments unfolded was not anticipated.

This Note examines country assessments produced by U.S. government, Congressional, and private business sources prior to the events of February 1986, when Marcos fled the Philippines and Corazon Aquino took office. Our primary purpose was to determine whether political risk analysis can be used to integrate country assessments and produce a composite picture of the key issues affecting the prospects for stability. With the fall of Marcos, we expanded the scope of the study to examine the usefulness of assessments for forecasting short-term developments.

Political risk analysis can provide a framework for distinguishing among types of issues that may be critical to the prospects for stability in a country. The important distinctions are those between issues related to government policies or developments (e.g., political repression, government-military factionalism, and economic mismanagement and corruption) and issues related to societal developments (e.g., ethnic-religious conflicts, guerrilla insurgencies, and class divisions). Distinctions can also be made as to whether an issue is political, military, or economic, and whether developments are originating within or outside the country.

Using this framework, we examined six assessments on the Philippines: two from Congressional Committees, two from government agencies (based on Congressional testimony of high-level officials), and two from private consulting firms. There was a remarkable degree of consensus on the key issues affecting the future of the Philippines. Government-related political issues included the prospects for fair elections, loss of political confidence, and uncertainties concerning Marcos' health. Government-related military issues included reform in

the military, potential factionalism, and the role of the military in politics. The deteriorating economy and the Marcos system of "cronyism" were additional issues noted in some of the assessments. The most prominent societal-related issue threatening the stability of the Philippines was the growing New People's Army (NPA) insurgency; the most critical external issue was the role the United States might play in influencing the prospects for stability in the country. However, despite the consensus that the situation in the Philippines was deteriorating and that the Marcos era was drawing to a close, *none of the assessments predicted the immediate collapse of the Marcos regime.*

Since Marcos had to flee the Philippines within six months of several of the assessments, and within eighteen months of all of them, there was an element of "surprise" in the course of events during the winter of 1986. It is therefore important to link the types of issues that are identified in assessments as critical to the stability of a country with the speed with which they may actually unfold. Guerrilla insurgencies, a prominent issue in all the assessments, are by their very nature gradual types of threats to a country's stability, rather than sudden challenges to an existing regime; it takes time for an insurgency to evolve to the point where it can topple a government. But developments centering around the internal policies and actions of a government can lead to sudden upheavals among the population or serious rifts within the government, resulting in the rapid collapse of the regime.

The sudden downfall of the Marcos government resulted from three critical factors: widespread corruption in the presidential elections, the defection of the military to the Aquino camp, and the role that the United States played in pressuring Marcos to hold the elections and then to step down. All of these issues had the potential to cause a sudden change in government, but the key event was the defection of the military. Had Marcos been able to retain the support of the military, even the blatantly corrupt elections would not necessarily have been enough to force a regime change. With military backing, Marcos might very well have chosen to repress the growing dissent, declare martial law, and hold on to power for a few more years.

Thus, it is important to determine which issues may evolve rapidly into situations of instability and to identify the types of events that may determine whether or not a government falls. Many of the issues identified as significant while Marcos was in power are also relevant for the future of the Aquino administration. As was the case for Marcos, the insurgency poses a long-term, rather than a short-term threat to stability. Among the immediate threats are the potential for civil unrest, factionalism both within the military and between the military and the government, and polarization among different political groups in the country.

Finally, the stability of the government can also be threatened by economic developments, since revolutions are traditionally followed by rising expectations on the part of the population. However, after several years of economic decline under Marcos, the economic expectations of the Philippine people are undoubtedly tempered by the knowledge that economic recovery will not be easy. In that respect, President Aquino may have somewhat more time to demonstrate even slight improvements in the economy than she has to demonstrate control over internal political affairs.

ACKNOWLEDGMENTS

I would like to thank Keith Crane, Janet DeLand, Brian Jenkins, and Konrad Kellen for reading this Note and providing valuable comments.

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I. INTRODUCTION

When Philippine opposition leader Benigno Aquino was assassinated in the summer of 1983, concern for the stability of the Philippines intensified throughout the U.S. government. Country assessments were produced by various agencies and departments, as well as by Congressional Committees. In addition, the private sector, worried about the prospects of huge losses in foreign investment if the strategically important Philippines went the way of Iran or Nicaragua, undertook new studies of the situation. This resulted in a multitude of country assessments, each with its own particular structure or focus, and each with potentially different conclusions, forecasts, and recommendations.

Interpreting this variety of country assessments presents a significant problem for policymakers. The study reported here was originally intended to demonstrate how a political risk perspective could be used to integrate different assessments into a composite picture of the Philippines while President Ferdinand Marcos was still in power.

With the collapse of the Marcos regime in February 1986, however, this "assessment of the assessments" took on a new meaning. The assessments produced during the last eighteen months of the Marcos regime provided an opportunity to examine how well country assessments can forecast short-term developments and where improvements may be needed. Thus, the objectives of the study--both original and revised--were the following:

- To design a new framework of political risk analysis that relates interpretations of country assessments to the question of country instability and regime change.
- To uncover areas where assessments appear to be able to forecast short-term developments, and where they can not, to determine the potential for improving them.

- To identify issues critical to the future stability of the Philippines that may have been resolved with the departure of Marcos, and issues that remain to be addressed by the Aquino government.

Six assessments of the future of the Philippines were examined in this study: two assessments by Congressional Committees (the Senate Committee on Foreign Relations and the Senate Select Committee on Intelligence); testimony before the Congress by two key State and Defense Department officials; and two assessments by leading international business consulting firms. While these are only a sample of the many assessments produced on the Philippines, they reflect the types of assessments policymakers are likely to have available for any country situation.

II. A FRAMEWORK FOR INTEGRATING COUNTRY ASSESSMENTS

The information U.S. policymakers receive pertaining to a given country situation emanates from a variety of sources, including U.S. government officials and analysts stationed abroad, federal agencies and departments in Washington, independent analysts, private consulting firms, and media reports. In addition, government departments and agencies also produce assessments relating to their specific interests, e.g., military assessments by the Department of Defense and political assessments by the Department of State.

The decisionmaker must attempt to incorporate this diverse information into a composite picture of future trends in a country, while not sacrificing the individual quality of the different reports. One potential aid in this process is political risk analysis. Although risk analysis has been used primarily by the business community as a conceptual and analytical tool for assessing foreign political developments, it can also offer a way of organizing information, monitoring developments, and forecasting future trends in country situations that may affect U.S. interests.

POLITICAL RISK ANALYSIS IN THE BUSINESS COMMUNITY

Although political risk analysis has been a subject of interest for some international business scholars since the 1960s, it did not gain widespread attention among corporations until the 1979 revolution in Iran. As companies lost millions of dollars with the collapse of the Shah's regime, increased efforts were made to understand the political dimensions of foreign investments. Political risk assessment generally involves the forecasting, monitoring, and analysis of a variety of political and social developments that can negatively affect investments, and the response of international business to those developments. For the business community, political risk involves developments ranging from expropriation and nationalization of assets to imposition of discriminatory taxes. Political risk can also involve disruption of operations due to internal political violence, as well as paralysis of host governments due to internal strife.

Many different actors and issues can lead to political risk, but two basic categories stand out: governmental-related risk and societal-related risk.¹ A wide range of actions and policies of a host government can lead to adverse conditions for foreign business. In addition to expropriation, nationalization, and discriminatory taxes, host governments can impose restrictions on remittances by foreign firms, exert pressure to form joint ventures, and cancel contracts. Political risks also evolve indirectly from the effects of governmental economic and political policies. Thus, price controls, inflationary policies, factional conflicts within the government, and leadership struggles can also lead to political risks.

Societal-related risks are actions and events that originate with a variety of societal groups. These risks include civil war, revolution, terrorism, rioting, and other violent acts that can disrupt the operations of businesses or lead to a loss of confidence in the host-country environment. Nonviolent societal actions such as demonstrations, strikes, and protests can also cause political risks for foreign firms.

Neither governmental-related nor societal-related risks are limited to developments originating within the host country. The effects of conflicts between other governments and the host government--including war--are also felt by the international business community. In addition, the home government of a foreign firm can create political risks for a firm through restrictions on investments and other policies. External societal actions include protests and pressure to disinvest from certain countries, as well as international boycotts of certain firms' products.

Distinguishing between governmental-related and societal-related political risks, as well as between those that originate within the host country and those that originate outside of it, can also be used for integrating the multitude of foreign country assessments that are

¹See Jeffrey D. Simon, "Political Risk Assessment: Past Trends and Future Prospects," *Columbia Journal of World Business*, Fall 1982, pp. 62-71; and Jeffrey D. Simon, "A Theoretical Perspective on Political Risk," *Journal of International Business Studies*, Winter 1984, pp. 123-143.

produced for the U.S. government. This can be particularly beneficial for isolating developments that may lead to instability or regime change in a country.

COUNTRY ASSESSMENTS AND POTENTIAL INSTABILITY

Foreign-country assessments prepared for the U.S. government take a variety of forms, ranging from the traditional qualitative reports by Foreign Service officers stationed abroad to elaborate quantitative analyses of trends by both private consulting firms and agencies within the government. Of central concern in any assessment of a country are the prospects for instability--either violent revolution, prolonged internal unrest, or sudden regime change. However, the multitude of assessments that policymakers receive may differ greatly in structure, style, content, and conclusions. The key actors, issues, and potential developments may not even be explicitly identified. A method for systematically comparing seemingly disparate assessments and extracting the key factors affecting a country situation would greatly assist policymakers, even in cases where the assessments are "wrong" in terms of the key issues identified.

There is no guarantee that integrating a number of assessments will yield the "true" picture of a country situation. There may be similar biases in the perceptions of the different assessors, as well as other factors that tend to result in "group-think." However, an analytical framework that incorporates the key indicators related to the potential for instability could also be used to alert decisionmakers to the types of issues that are *not* being addressed in country assessments. Special attention could then be given to the excluded issues to ensure that potentially significant developments are not being overlooked.

Figure 1 divides issues and developments that may lead to instability in a country according to whether they are governmental- or societal-related; whether they are political, military, or economic in nature; and whether they can be traced to situations originating within the country or external to it. Government-related political issues and developments (cell 1) include repression of dissent, human-rights abuses, fraudulent elections, serious disputes among government officials and agencies, and the death or incapacitation of a head of

INTERNAL ISSUES		EXTERNAL ISSUES			
Political	Military	Economic	Political	Military	Economic
Repression/ human rights abuses	Intra-military disputes	Corruption	Foreign govt. instigation	Invasion by foreign troops	External debt
Death/incapac- itation of head of state	Military abuses of civilians	Mismanagement of economy	State-sponsored terrorism	International conflict	International embargoes and sanctions
Fraudulent elections	Govt.-military disputes	Unemployment/ inflation			Imposition of barriers to trade
Intra-govt. disputes		Price increases			
(1)	(2)	Rapid modern- ization	(7)	(8)	(9)
Ethnic-religious divisions	Guerrilla movements	Economic class divisions	Spillover of neigh- boring country revolution/unrest	Cross-national guerrilla war	Withdrawal of foreign private investment
Ideological divisions	Private armies	Disparities in wealth/property	Sudden influx of refugees	foreign mercen- ary activity	
Indigenous terrorism		Relative depri- vation	International (non- state-sponsored) terrorism		
(4)	(5)	(6)	(10)	(11)	(12)

GOVERNMENTAL-RELATED

SOCIETAL-RELATED

Fig. 1--Issues and developments leading to potential instability in foreign nations

state. Instability can also arise from government-military issues (cell 2), ranging from factional conflicts both within the armed forces and between the armed forces and the government to corruption among officers and abuses of civilians by government troops. Factional conflicts can lead to coups and civil wars, while corruption and civilian atrocities can lead to widespread unrest.

Internal governmental-related policies and actions in economic affairs (cell 3) include mismanagement of the economy, corruption, and unpopular price increases. To the extent that high inflation, unemployment, and recession are perceived as being due to government policies, instability may result. At times, the initiation by the government of too-rapid changes in the country may lead to protests, demonstrations, and ultimately either paralysis in government or revolution. The Shah in Iran was overthrown in part because of his policies of rapid modernization of the society at the expense of fundamentalist religious forces.

Political/societal-related issues that can lead to instability in a country (cell 4) include deep-seated ethnic-religious divisions that transcend whatever government may be in power, such as those in India; violent political turmoil between different political factions, such as the battles between leftists and rightists in Turkey during the late 1970s; and prolonged terrorist campaigns by groups whose aim is to create a climate of fear in the population.

Societal-related military threats to stability (cell 5) include guerrilla movements, which usually are aimed at toppling the existing government. There are several different types of guerrilla movements, as well as different levels of a guerrilla conflict. Insurgencies include national liberation movements against colonial powers or foreign occupiers, revolutionary struggles in independent nations, and secessionist wars by various groups within a country.² Three basic stages of an insurgency can be identified. The first stage is the "strategic defensive," whereby a guerrilla movement concentrates its

²Gerard Chaliand, "Introduction," in Gerard Chaliand (ed.), *Guerrilla Strategies: An Historical Anthology from the Long March to Afghanistan*, Berkeley: University of California Press, 1982, p.11.

efforts on building up its military and political base of support. Skirmishes with government troops take place, but the guerrillas are not yet in a position to pose a serious challenge to the existing regime. At the next stage of conflict, the guerrillas and the government troops are locked into a "strategic stalemate," with each side approximately equal in strength and battling each other for control of key cities and towns and areas. In the third stage, the guerrillas are in a "strategic offensive," with government troops increasingly isolated and weakened as the insurgency moves closer to victory.³ It is in the strategic stalemate and strategic offensive stages that country stability is threatened.

An additional societal-related military threat is the existence of private armies. Such militias need not be linked to ethnic-religious divisions, but may simply be the private armies of powerful individuals or warlords. Fighting among them could threaten the stability of a country.

Societal-related economic issues that could lead to country instability (cell 6) include economic/class divisions in a society, wide disparities in income and property among groups, and growing feelings of economic deprivation by large numbers of people. While economic/class divisions may stem in part from government policies--e.g., one group may feel economically disadvantaged because of discrimination by the government--for the most part, such divisions are deep-rooted in society and not necessarily related to the particular government in power.

Potential instability can also stem from developments in the international environment, as well as from actions and policies by other governments and societies. The sponsorship of terrorist activities in one country by the government of another or the initiation of clandestine operations aimed at creating riots or labor strife (cell 7) can cause instability.

Governments can also be toppled due to defeat in an international war (e.g., the junta in Argentina following the 1982 Falklands War with Great Britain), as well as due to the invasion of one country by the

³See *The Situation in the Philippines*, Staff Report prepared for the Committee on Foreign Relations, U.S. Senate, 98th Cong., 2d Sess., Washington, D.C.: U.S. Government Printing Office, October 1984, p.35.

armed forces of another (e.g., the Pol Pot regime in Cambodia following the 1978 invasion by Vietnam) (cell 8). International economic developments on the governmental level that may be causes of instability include massive external debt, international embargoes and sanctions, and imposition of trade barriers (cell 9).

Instability in a country may also be caused by societal developments and factors originating in the international environment (cells 10, 11, and 12), such as the spread of revolutionary fervor from neighboring countries (which has been the fear of many moderate Arab states in the wake of the Iranian revolution), unrest caused by the influx of refugees or other large masses of dislocated people, and the actions of independent international terrorists. External military actions on the societal level include cross-national guerrilla warfare and foreign mercenary activities. Economic societal factors would include large withdrawals of foreign investment by multinational corporations.

Differentiating among types of issues and developments that may lead to foreign instability can thus assist decisionmakers in interpreting the multiple assessments that are produced for any given country. The case of the Philippines illustrates this point.

III. ASSESSMENTS OF THE PHILIPPINES

During "normal" times, several political, economic, and military assessments can be expected to be produced for any given country. When a country situation becomes "hot," the number of assessments proliferates, and efforts to stay on top of the situation intensify.

After the assassination of opposition leader Benigno Aquino in 1983, the Philippines entered the "hot" stage in country assessments. As demonstrations took place throughout the country, concern for the future stability of the Philippines was expressed in many circles. Reports were produced based upon fact-finding tours of the country by Congressional Committee staff members, testimony before Congress by key administration officials, and business-consulting-firm risk assessments.

CONGRESSIONAL COMMITTEE ASSESSMENTS

The Senate Foreign Relations Committee Assessment: October 1984

In the fall of 1984, amid growing concern over the prospects for stability in an important ally, the Senate Committee on Foreign Relations released a report on the situation in the Philippines.¹ The Aquino assassination had put the Marcos regime on the defensive, both at home and abroad. During the spring and summer of 1984, members of the staff of the Foreign Relations Committee visited the Philippines and produced a qualitative country assessment.

The primary issue identified as being critical for the prospects of stability in the Philippines was the growing threat of the Communist insurgency of the New People's Army (NPA). Relying on exploitation of the problems prevalent in the society, rather than Communist indoctrination, the NPA was winning over an increasing number of recruits in its campaign to topple the Marcos government. With a sophisticated political infrastructure and an increasing military capability, the NPA appeared to pose a major threat to stability in the Philippines. It had grown significantly in the preceding few years, to

¹*The Situation in the Philippines*, op. cit.

an estimated strength of 12,500 guerrillas. The insurgency was assessed to be in the stage of strategic defensive and was seen as approaching the time when it would be able to move on to the next phase of the insurgency, strategic stalemate. Despite the numerical strength of the Armed Forces of the Philippines (AFP), government troops were spread thinly on many islands and would face serious problems if the NPA increased its efforts. Antagonism toward the AFP was prevalent in the rural areas. Nevertheless, the Committee concluded that without a total collapse of either the economy or the Marcos government, the NPA would not be able to launch a sustained national offensive.

Other issues identified by the Committee as affecting the potential for stability in the Philippines were violations of human rights by the military, continued deterioration of the economy, the corruption and cronyism associated with the Marcos government, and the need for basic changes in the socioeconomic system. According to the Committee,

The larger issues of the economy, the growth of the NPA, whether the substance of Philippine democracy can be repaired, and whether fundamental changes in the socio-economic system can be made in time--these will be major determinants of events. (p. 6)

Despite these negative trends, the Committee cited the Filipino people's strong desire for democracy as mitigating against the prospects for a Communist government in Manila. The Committee also noted that Marcos retained control over the main aspects of power and had the apparent loyalty of the AFP. These factors were viewed as important variables that would most likely allow Marcos to remain in power indefinitely.

The Senate Intelligence Committee Assessment: November 1985

One year after the Senate Foreign Relations Committee assessment, the Senate Select Committee on Intelligence issued a report on the situation in the Philippines.² Like the earlier report, this assessment

²*The Philippines: A Situation Report*, Staff Report to the Senate Select Committee on Intelligence, U.S. Senate, 99th Cong., 1st Sess., Washington, D.C.: U.S. Government Printing Office, November 1, 1985.

was also based on visits to the Philippines by staff members. But the Intelligence Committee assessment was much more pessimistic than the Foreign Relations Committee report about the future of the Marcos regime.

Between 1984 and 1985, the situation in the Philippines had deteriorated considerably. The insurgency was growing, tension was mounting concerning the pending ruling by an independent investigative body of the military's involvement in the Aquino assassination, and the economy was continuing its downward slide. It is thus not surprising that the Intelligence Committee emphasized the seriousness of the situation. The Committee report stated that the Marcos government had at the most three years with which to implement fundamental reforms, or a "point of no return" with respect to the NPA insurgency would be reached. The Committee did not express much hope that Marcos would be able to take the necessary measures to improve the economy, reform the political process, and stem the tide of the insurgency. The report predicted that the deteriorating economy and civil unrest would be likely to force political change before the outcome of the insurgency was known.

Issues that were identified as critical included Marcos' health, the holding of fair elections, reform in the military, and an end to the corruption and cronyism that dominated the economy. Monopolies in the sugar and coconut industries were singled out by the Committee as a source of economic and political distress among the farmers in the country. Coconut-farming areas had become very successful recruiting targets for the NPA. The Committee recommended a counterinsurgency strategy that combined military, political, and economic initiatives. However, the report stated that even with substantial reforms, it would take many years to reverse the growth of the insurgency. Without reforms, the NPA and the Communist Party of the Philippines (CPP) would be the main beneficiaries.

The Intelligence Committee assessment did not predict a military coup, citing the democratic history and tradition of the AFP. The democratic tradition among the population was viewed as an important deterrent to a Communist government assuming power in the Philippines. However, the report expressed concern that without significant reforms

in the near future, democratic forces would find it extremely difficult to offer an alternative to the NPA/CPP.

The importance of U.S.-Philippine economic relations to the future stability of the country was also emphasized by the Committee. With the Philippine's external debt of \$25 billion absorbing approximately 35 percent of the nation's exports, economic recovery depended heavily upon export growth. Since the United States accounts for approximately 38 percent of total Philippine exports, denial of the U.S. market to Philippine exporters would have a "catastrophic impact on the Philippine economy." The role of U.S. private investment in the Philippine economy was also pointed out by the Committee. The U.S. equity investment of \$1.1 billion represented 55 percent of total private direct investment in the country. The sudden withdrawal of such investment would obviously have a serious impact upon the economy.

With respect to the American military bases--Clark Air Force Base and Subic Bay Naval Station--the Committee report stated that the worst scenario for the United States would be for a Communist government to ascend to power and offer control of the bases to the Soviet Union. Even if a democratic regime should succeed Marcos, renegotiating the base agreement would probably be a top priority issue for the new government.

GOVERNMENT ASSESSMENTS

In November 1985, high-level officials from both the Department of State and the Department of Defense testified before the Congress on the situation in the Philippines. This was only one of many occasions on which government officials appeared before the Congress on this subject. The testimony at one of these sessions illustrates how the officials assessed the key issues affecting the prospects for stability in the Philippines.

The State Department Assessment: November 1985

The State Department assessment of the situation in the Philippines was presented by Paul Wolfowitz, Assistant Secretary of State for East

Asian and Pacific Affairs.³ Like the Senate Foreign Relations and Intelligence Committees, the State Department emphasized the loss of political confidence in the Marcos regime, the deteriorating economy, and the escalating Communist insurgency as the crucial factors affecting the prospects for stability in the Philippines. The need for open and fair presidential elections was singled out for special attention in the State Department assessment:

At this juncture in Philippine history, free elections can play the pivotal role in rebuilding and re-energizing institutions which will be required to restore stability and growth. (p. 28)

Failure to conduct the elections in a democratic fashion would lead to "increased polarization of Philippine society, a deepening of the present crisis, and further growth of the Communist insurgency." The NPA had increased its strength over the previous two years and was gaining more influence in the central part of the country and the provinces near Manila. The use of revolutionary "taxes" (a form of extortion of businesses in NPA strongholds) had also increased.

The State Department assessment stated that regardless of who won the presidential elections, difficult economic choices would have to be made, the ability of the AFP to combat the NPA would have to be improved, and the overall process of political and economic reforms would have to be expanded substantially. With respect to the economy, the assessment, like the Intelligence Committee report, pointed to the important role the United States could play in revitalizing certain aspects of the Philippine economy. Development assistance programs would help to strengthen the economic infrastructure, as would International Monetary Fund (IMF) loans and debt-rescheduling agreements.

³*Recent Events in the Philippines, Fall 1985*, Hearings and Markup Before the Committee on Foreign Affairs and its Subcommittee on Asian and Pacific Affairs, House of Representatives, 99th Cong., 1st Sess., November 12 and 13, 1985, Washington, D.C.: U.S. Government Printing Office.

The need to strengthen and rebuild the AFP was emphasized in the State Department assessment, which pointed out that even if Marcos was replaced by the democratic opposition, the new government would still need an effective and strong military to combat the Communist insurgency. Problems in leadership, upward mobility, and accountability for corruption and abuse of authority were cited as deficiencies in the armed forces.

While the State Department assessment acknowledged the vital importance to the United States of continued access to Clark Air Force Base and the Subic Bay Naval Station, it stated that U.S. policy should not be tied to the fate of the bases. Overall, the assessment concluded that the problems in the Philippines were worse than they had been two years earlier.

The Defense Department Assessment: November 1985

The Defense Department assessment of the situation in the Philippines was presented to Congress in testimony by Richard Armitage, Assistant Secretary of Defense for International Security Affairs.⁴ The main threat to the stability of the country, according to this testimony, was the Communist insurgency, and meeting that threat would require a comprehensive program of military, political, and economic reforms.

Like the other observers, Defense Department officials expressed concern over the deteriorating situation regarding the NPA insurgency. The NPA was estimated to have 16,500 troops, and approximately 20 percent of the villages in the country were influenced or controlled by the NPA or the CPP. Without massive assistance, the AFP would not be able to eliminate the insurgent threat. The assessment also predicted that a strategic stalemate would occur within three to five years unless there were significant reforms in the military. The stalemate was seen as eventually leading to a Communist victory, with the United States losing its vital military bases at Clark and Subic Bay. This prospect posed a major threat to U.S. interests, since there are no attractive basing alternatives. Neither Guam nor the Northern Marianas offer the

⁴Ibid.

geostrategic advantage of the Philippines, nor could they provide inexpensive skilled labor. The operational costs of a move would also be prohibitive.

The Defense Department's assessment emphasized the important role that U.S. security assistance can play in ensuring the stability of the Philippines. As the United States is its only source of outside funding, the AFP is heavily dependent upon U.S. aid in its counterinsurgency efforts. Key issues within the military that needed to be addressed were accountability for corruption, upward mobility, and effective leadership. Reform of the Civilian Home Defense Force (CHDF) was also needed for the counterinsurgency campaign. The assessment pointed out that serious supply shortages for the AFP would be a threat to their ability to combat the insurgency. A major concern was the potential effect upon the stability of the country of AFP interference with the presidential elections. Since the credibility of the AFP would be linked to a fair election, interference would further degrade the military's public image.

The Defense Department assessment stated that the hard core within the CPP/NPA would continue the insurgency even if a democratic, moderate, non-Communist government attained power, and that a reduction in U.S. aid would hamper the country's chances for stability.

BUSINESS RISK ASSESSMENTS

A number of assessments of the Philippines were produced for the business community by private consulting firms. Two of these assessments provide a good indication of how the private sector viewed the evolving crisis in the Philippines.⁵

Assessment by Consulting Firm A: September 1985

Consulting firm A produces detailed political-risk reports at least once a year for each of 85 countries it monitors, as well as an annual ranking of countries according to their potential for a variety of risks for business. These reports are based upon responses to a questionnaire

⁵The names of the companies will not be identified.

administered to a small group (three to seven) of experts on each country. The survey results are used to prepare eighteen-month and five-year forecasts of the risk potential in each country.

In a September 1985 report, consulting firm A viewed the political risks for business in the Philippines over the next five years as "immense"; they assessed the probability of Marcos remaining in power for the following eighteen months at 50 percent and a loyalist regime taking over at 30 percent. The probability of a centrist regime assuming power in the short term was seen as only 20 percent. Marcos was viewed as having survived the crisis following the assassination of Benigno Aquino, and no opposition group was seen as being capable of overthrowing him. In January 1986, one month before Marcos had to flee the Philippines, firm A issued an update which stated that although Marcos was continuing to lose support, he was not likely to lose his job.

Key issues identified as affecting the potential for stability included the economy, which was seen as deteriorating; a growing lack of public confidence in the government; the growth of the Communist insurgency; and the role that the military might play in any succession struggle. Both Marcos and the Communists were viewed as posing the greatest long-term threat to international business. However, the short-term risks were seen as moderate. The assessment predicted that the insurgency would widen unless Marcos stepped down. The deteriorating economy was cited as a crucial factor in increasing NPA activity. It was concluded that the possible reinstatement of General Fabian Ver as head of the military would lead to a further erosion of the legitimacy of the regime, which in turn would lead to further growth of the insurgency, withdrawal of investments by foreign firms, and increased chances of the regime collapsing.

The assessment foresaw the potential for a Communist regime by the early 1990s, with the influence of the NPA and CPP increasing in the short term. Although Marcos was viewed as having created a powerful and loyal leadership in the AFP, the potential for a challenge by the officer corps to the military leadership, and possibly the regime, was acknowledged. Firm A concluded that if a centrist regime took power, it

would be unable to deal effectively with the NPA insurgency, and government-AFP friction would thus rise. The assessment predicted a struggle among loyalists, centrist civilians, and the military as the most likely scenario for the Philippines for the remainder of the 1980s.

Assessment by Consulting Firm B: March 1985

Three scenarios comprised a major portion of the Philippine country report issued by private consulting firm B. One scenario examined the possibility of a Communist government coming to power within three years. The key factors affecting such a development would be either an unpopular and authoritarian regime remaining in power in the Philippines or the failure of a democratic government to establish a strong executive. The inability of the military to eliminate the Communist insurgency, continued human-rights abuses, and a deteriorating economy were additional factors cited as facilitating the emergence of a Communist government. However, the NPA was viewed as having no chance of assuming power within one year, and little chance of gaining power within five years. Nevertheless, a takeover by 1995 was seen as "entirely possible."

The chances of a liberal-democratic government taking power were seen as "highly unlikely" within one year, but possible in five years. In this scenario, leaders having national appeal would be found for the opposition; the liberal opposition would design a political and social program that could address the problems of both the rural and urban areas of the Philippines; honest elections would be held; and the military and Marcos would not resist the outcome of those elections. The most probable scenario for March 1985-March 1986 was considered to be a continuation of the Marcos regime. Key issues affecting this scenario were Marcos' health, the ability of the government to retain control of the armed forces, support from the United States, and confidence in the economy on the part of international lending institutions. While firm B did not believe that Marcos would fall in the short term, they did identify a number of factors that could facilitate a change in government, including the mobilization of the democratic opposition, the position of the Church, the potential

opposition of the business community and international lending institutions, economic difficulties, factional divisions in the armed forces, and U.S. influence aimed at promoting stability through a peaceful transition of power to a democratic government.

Firm B was pessimistic about the prospects for stability in the long term, citing weak political institutions and a tradition of violence in the country, a trend toward polarization in society, and the deteriorating economy. This assessment predicted that Marcos would be eliminated from Philippine political life in five years, and that the two years following his departure would be marked by an unstable government. Whether the new government turned out to be an authoritarian continuation of a Marcos-type regime or a democratic government, the NPA was still seen as gaining strength.

SUMMARY

Each of the assessments discussed above either implicitly or explicitly identified a number of issues and developments as being important for the future stability of the Philippines (Fig.2). These issues ranged from the threat of the growing Communist insurgency and the deteriorating economy to Marcos's failing health and the need for fair elections.

There was a remarkable degree of consensus among the assessments on the key issues and a great deal of similarity in the overall forecasts. Yet no one accurately predicted how *fast* Marcos would fall from power. While all agreed that the Marcos government was in serious trouble, they did not foresee the collapse of the government in the immediate short term (one year). The Senate Intelligence Committee assessment, however, came the closest to accurately forecasting the demise of the Marcos regime by emphasizing the urgency of the situation and pointing out that political and economic factors, rather than the insurgency, might be most crucial in bringing about the fall of the regime. In the next section, we integrate these findings into the risk-analysis framework we have developed in this study and attempt to determine whether this framework can improve upon the ability of country assessments to predict short-term developments.

Organization	Year	Key Issues/Indicators Identified	Basic Forecast/Assessment
Senate Foreign Relations Committee	October 1984	<p>Growing Communist insurgency</p> <p>Loss of confidence in Marcos govt.</p> <p>Recurring military abuses</p> <p>Deteriorating economic situation</p> <p>Inequities of socioeconomic system</p> <p>Antagonism between Church and govt.</p> <p>Uncertainty over presidential election</p> <p>Verdict of Agrava board investigating assassination of Benigno Aquino</p> <p>Whether opposition can unify</p> <p>Marcos' treatment of National Assembly</p> <p>System of cronyism</p> <p>Factionalism in military</p>	<p>Marcos govt. not in physical jeopardy in short term (1-2 years)</p> <p>NPA does not appear ready to mount a sustained nationwide offensive</p> <p>NPA may launch a sustained nationwide offensive if there is a total collapse of the Marcos govt. or the economy</p> <p>Marcos appears to have the power to remain head of state indefinitely</p>
Senate Intelligence Committee	November 1985	<p>Deteriorating domestic security situation</p> <p>Deteriorating economic conditions</p> <p>Failing health of Marcos</p> <p>Importance of fair elections</p> <p>Reform in the military</p> <p>Developing a counterinsurgency strategy</p> <p>Elimination of the crony system</p> <p>Future status of U.S. military bases</p> <p>Loss of confidence in government</p> <p>U.S.-Philippines economic relations</p>	<p>Point of no return likely to be reached within 3 years if present trends continue</p> <p>Deteriorating economy and civil unrest likely to bring about political change before the outcome of the guerrilla insurgency is known</p> <p>Marcos unlikely to initiate reforms</p> <p>Potential for a non-Communist future rests with the democratic opposition and the armed forces</p> <p>Armed forces coup unlikely</p>
State Department (Congressional testimony by Assistant Secretary of State for East Asian and Pacific Affairs Paul I. Wolfowitz)	November 1985	<p>Importance of fair elections</p> <p>Loss of political confidence</p> <p>Economic difficulties</p> <p>Escalating guerrilla insurgency</p> <p>Reform in the military</p> <p>Need to rebuild strength of military</p> <p>Importance of U.S. military bases</p> <p>Role of U.S. in revitalization of Philippine institutions</p>	<p>Problems confronting the Philippines are more serious than they were two years ago</p> <p>Continued growth of CPP/NPA insurgency in overall strategic terms</p> <p>Fraudulent elections will lead to increased polarization of society, deepening of present crisis, and further growth of the Communist insurgency</p>
Defense Department (Congressional testimony by Assistant Secretary of Defense for International Security Affairs Richard L. Armitage)	November 1985	<p>Need for comprehensive counter-insurgency plan</p> <p>Reform in the military</p> <p>Importance of fair elections</p> <p>Importance of AFP playing a neutral role in elections</p> <p>Importance of U.S. military bases</p> <p>Critical role of U.S. security assistance</p> <p>Loss of confidence in government</p>	<p>Strategic stalemate in the insurgency</p> <p>Possible within 3-5 years</p> <p>Trendlines for the insurgency continue to point in the wrong direction</p> <p>Without massive assistance, AFP will be unable to root out the insurgency</p> <p>Hard-core leadership of NPA will continue to struggle against Philippine democracy, even if a moderate, non-Communist govt. should accede to power</p>

Fig. 2--Government and private organization assessments of the situation in the Philippines: 1984-1985

Organization	Year	Key Issues/Indicators Identified	Basic Forecast/Assessment
Private Consulting Firm A	September 1985	<p>Weakening economy Lack of confidence in govt. Growth of CPP/NPA Possible reinstatement of Gen. Ver as head of military Role of the military in politics Potential challenges to military leadership and regime from within the officer corps Potential military role in a succession struggle U.S.-Philippines economic relations</p>	<p>Marcos continues to lose support, but unlikely to lose job (January 1986) Opposition groups, including the Communist party, do not now have the physical means to overthrow Marcos Over next 18 months (Sept 1985 - March 1987): likelihood of a Marcos regime is 50%, likelihood of a loyalist regime is 30%, likelihood of a centrist regime is 20%. Struggle among loyalists, centrist civilians, and military is most likely 5-year scenario Risk is immense over next 5 Years Should a centrist regime take power, public expectations will be too high</p>
Private Consulting Firm B	March 1985	<p>Marcos's Health Frailty of political institutions Trend toward political polarization Deteriorating economy Tradition of violence Mobilization of the democratic opposition Stance of the Church Opposition of the business community and the foreign lending institutions Potential divisions within the armed forces Role of the United States Growing Communist insurgency</p>	<p>Continuation of the present regime for the next year Highly unlikely that a liberal-democratic govt. will take power within a year Possible for a liberal-democratic govt. to come about in 5 years Unlikely that there will be a smooth transition of power when Marcos goes in 5 years' time Marcos will have left the scene In the 2 years after his departure, he could be replaced by either an authoritarian regime or a democratic govt., neither of which will be stable NPA will be increasing its campaign during any transition period NPA has no chance of forming a govt. in the next year NPA unlikely to form a govt. within 5 years NPA takeover by 1995 entirely possible</p>

Fig.2 (Continued)

IV. INTEGRATING THE ASSESSMENTS OF THE PHILIPPINES

Integration of the key issues identified by the different assessments into our framework produces a composite picture of the situation in the Philippines (Fig. 3).¹ The Senate Select Committee on Intelligence, the State Department, and the Defense Department all pointed to the importance of holding fair elections. Marcos's health, potential opposition of the Church, and lack of confidence in the government were also cited. A number of issues related to the military were noted as important, particularly the need for reform in the armed services and the paramilitary units, and the potential for factionalism in the military. However, the prospects for a military coup were not deemed to be high. The assessments also stressed the role the deteriorating economy would play in weakening Marcos and providing more support for the insurgency.

The threat of the Communist insurgency was of concern in all the assessments. There was general agreement that while the NPA did not yet have the capability to launch a nationwide offensive, within a few years it could reach a position of strategic stalemate. Inequities in the socioeconomic system of the Philippines were also of concern in some of the assessments, although the threat of ethnic-religious conflicts or societal group conflicts was not deemed serious.²

Several assessments noted the role of the United States in ensuring the stability of the Philippines. This role included increased pressure on Marcos to reform, the potential influence of U.S. military assistance in the fight against the insurgency, and the importance of U.S.-Philippines economic relations. The effect of the Philippines'

¹It should be noted that most of the assessments agreed on the importance to U.S. interests of the continued presence of American military bases in the Philippines. However, the issue of the bases, while potentially causing a strain in U.S.-Philippine relations, was not seen as a *key issue* affecting the stability of the Philippines. Thus, it was not included in the framework.

²The Moslem insurgency was not deemed as critical to the stability of the country as the Communist NPA insurgency.

	INTERNAL ISSUES			EXTERNAL ISSUES		
	Political	Military	Economic	Political	Military	Economic
GOVERNMENTAL-RELATED	fair elections (I, S, D)	Reform in the military (F, I, S, D, A)	Deteriorating economy (F, I, S, A, B)	Role of U.S. (I, S, B)	U.S. security assistance (D)	External debt/confidence in govt. by international lending institutions (I, S, A, B)
	Marcos's health (I, B)	Potential fac- tionalism (F, A, B)	Cronyism (F, I)			U.S.-Philippines economic relations (I, S, A)
	Church-govt. friction (F, B)	Role of military in politics (D, A, B)				
	loss of politi- cal confidence (F, I, S, D, A)					
	(1)	(2)	(3)	(7)	(8)	(9)
SOCIAL-RELATED	---	Growing Commu- nist insurgency (F, I, S, D, A, B)	Inequities in socioeconomic system (F, I)	---	---	Withdrawal of foreign private investment (I, A, B)
	(4)	(5)	(6)	(10)	(11)	(12)

F = Senate Foreign Relations Committee
 I = Senate Intelligence Committee
 S = State Department
 D = Defense Department
 A = Private consulting firm A
 B = Private consulting firm B

Fig. 3--Integrating the assessments on the Philippines: issues and developments affecting stability

mounting external debt on the stability of the country was also cited as a key issue in several of the assessments.

The only external societal-related issue the assessments identified as important to the stability of the Philippines was foreign private investment. The potential for capital flight in the wake of deteriorating political, social, and economic developments was seen as a cause for concern, especially in the assessments made by private business consulting firms. External societal-related developments in the political and military realm, such as the spread of neighboring revolutions and cross-national guerrilla warfare, were not seen as relevant to the Philippines case.

As indicated in Fig. 3,

- Most of the assessments agreed that the situation in the Philippines was deteriorating.
- Most of the assessments agreed that the key issues affecting stability were the growing Communist insurgency, the need for political and military reform, the importance of U.S. influence, the deteriorating economy, and the need for fair elections.
- There was basic agreement that without reforms and effective counterinsurgency strategies, the NPA would reach a position of strategic stalemate within three to five years.
- Despite the pessimism of all the assessments concerning the long-range, and in some cases intermediate-range, prospects for stability in the Philippines, *no assessment foresaw Marcos out of power in the immediate short term (within one year).*

Marcos, in fact, had to flee the Philippines within six months of several of the assessments, and within eighteen months of all of them. Why did the assessments all miss this critical short-term development? The answer can be found by reexamining Fig. 3 with the following objectives:

- To identify key issues that by their nature are likely to evolve more rapidly than others into instability and/or regime change.
- To identify the combination of key issues that actually was critical in Marcos's fall.

Certain types of issues are likely to evolve slowly into situations of instability, while others tend to evolve rapidly. Some of the issues in Fig. 3 that were identified as critical for the stability of the Philippines were more likely to evolve over the long term than to arise in the short term. The most prominent among these was the threat of the Communist guerrilla insurgency. Insurgencies generally take years, even decades, to reach their final outcomes. Thus, as pointed out earlier, the Senate Intelligence Committee assessment stated that civil unrest and the deteriorating economy might force political change before the insurgency was resolved one way or the other. And indeed, the NPA insurgency did not play a central role in the sudden collapse of the Marcos regime.

The developments centering around the internal policies and actions of a government are the ones most likely to deteriorate rapidly into instability, because of the volatile reactions that unpopular government policies or unfavorable perceptions of the government can elicit among the population. Political repression can suddenly spark riots and other forms of violence that may bring down a government; factional disputes in the military may erupt into civil war or a coup; and price increases or mismanagement of the economy can lead to labor strife and eventual paralysis of the country.

The assessments pointed to a number of internal governmental-related issues that posed a threat to the stability of the Philippines. In the end, however, only two of these can be said to have been direct causes of Marcos' sudden downfall: fraudulent elections and the defection of key military figures (Defense Minister Juan Enrile and Lieutenant General Fidel Ramos) to the Aquino camp. While the deteriorating economy was undoubtedly a factor in the growing discontent with the Marcos regime, it was not the immediate cause of Marcos's

collapse. Nor was the lack of confidence in the government responsible; there had been very little confidence in the government since Aquino's assassination. It was the fraudulent elections that sparked the mass protests and served as the catalyst for the events that ultimately brought Marcos down.

By itself, the issue of fair elections would not have been sufficient to cause a sudden regime change. Widespread protests had occurred in the past, especially in the aftermath of the Aquino assassination, yet Marcos had been able to remain in power. In fact, his past history of weathering these types of civil protests may have influenced the assessments away from visualizing any *immediate* threat to his hold on power.

Two major factors differentiate the post-election situation from the post-Aquino-assassination environment: the defection of the military leadership to the Aquino camp, and the more active role played by the United States in Philippine affairs in the period leading up to, and following, the elections.³ Had Marcos retained the support of the military, he might have chosen to quell the mounting civilian protests by imposing martial law. The most likely scenario then would have been a prolonged period of unrest, with Marcos still remaining in control of the government.⁴

The role of the United States was also critical in distinguishing the post-election environment from the post-assassination environment. The United States had taken on a more visible and active role in the period leading up to the elections (in fact, it was the United States

³Another obvious factor was the presence of a unified opposition during the winter of 1986, something that did not occur after the 1983 Aquino assassination. The unified opposition, however, is more of an explanatory factor in describing how well Corazon Aquino did in the "corrupt" election, than an explanation for the ultimate fall of Marcos. Even with a unified opposition, the demonstrations after the election seemed unlikely to topple Marcos.

⁴The Roman Catholic Church and Cardinal Sin also played a significant role in the events of February 1986. After the defection of Enrile and Ramos, Cardinal Sin went on Radio Veritas and called upon the people to support the rebels by bringing food and other supplies to their garrison at the Defense Ministry headquarters (*The New York Times*, February 23, 1986, p. 17A).

that pressured Marcos into calling the elections in the first place), and it indicated support for Enrile and Ramos after they resigned from the Marcos government.⁵ Marcos thus knew he could not count on U.S. support if he chose to try to quell the military rebellion.

All the major elements in the actual scenario that took place in the Philippines can be seen in Fig. 3--fair elections, the role of the military in politics, and the U.S. role. As it turned out, however, the extent of the corruption in the elections was more blatant than most of the assessments anticipated, and the exact role of the military in the scenario, namely defection to the Aquino camp, was not foreseen.

Therefore, despite widespread agreement about the deteriorating situation in the Philippines, there was an element of "surprise" in the course of events. Reducing the uncertainty surrounding potential "surprises" is one of the most difficult challenges of short-term forecasting. However, the use of frameworks that can identify which issues and which combinations of issues have the potential to evolve more rapidly than others into situations of instability or regime change may help to reduce uncertainty.

We can also see in Fig. 3 the issues that may have been resolved with the departure of Marcos, and those that remain to be addressed by the Aquino government. Except for fair elections and Marcos's health, all the issues that were assessed as affecting the stability of the country while Marcos was in power are also relevant for the Aquino regime. The split between President Aquino and former Defense Minister Enrile over the counterinsurgency campaign, which led to Enrile's dismissal from the Cabinet, emphasizes the threat to a country's stability that internal government and military factionalism can cause. Polarization between the military and the government can increase the chances for a coup,⁶ but a coup while President Aquino retains the support of the people would play into the NPA/CPP hands. It would provide the Communists with

⁵Ibid., p.1.

⁶According to some reports, Enrile and his supporters has planned to overthrow the Aquino regime but were prevented from doing so when armed forces Chief of Staff General Ramos proclaimed his support for President Aquino and instructed his commanders to disregard any orders from Enrile. (*The New York Times*, November 24, 1986, p. 6.)

a dramatic issue around which to galvanize support and would also potentially increase the number of recruits into the guerrilla camps.

As was the case for Marcos, the NPA poses a long-term rather than a short-term threat to the stability of the Aquino government. The Philippine "revolution" does raise an interesting question concerning the tactics and doctrines of guerrilla insurgencies: What sustains an insurgency when there has been a popular change in government? For most insurgencies, the toppling of the government would signal a victory for the insurgents. In the case of the Philippines, however, the NPA was not a significant factor in the events of February 1986. Any "anti-Marcos" theme that may have been evident in the insurgency must be replaced with the acknowledgment that despite the change in leadership, the "system" remains the same, as do the economic, social, and political grievances of the people.

The potential for civil unrest is another problem facing the Aquino government. Incidents such as the November 1986 murder of leftist labor leader Rolando Olalia, which led to mass demonstrations in Manila, can suddenly ignite political passions. Friction between leftists and Marcos loyalists, as well as between other political factions in the country, will undoubtedly remain a source of concern for the Aquino government.

Finally, the stability of the government can also be threatened by economic developments. Revolutions are traditionally followed by rising expectations on the part of the population, which, if not met, can lead to serious problems for the new regime. However, in the Philippines, the public's economic expectations are most likely tempered by the knowledge that economic recovery will not be easy after several years of decline under Marcos. In that respect, President Aquino may have somewhat more time to demonstrate even slight improvements in economic affairs than she has to demonstrate control over internal political affairs.

V. CONCLUSION

Country assessments have traditionally been looked upon as a tool for reducing uncertainties in future developments in foreign countries. A multitude of assessments are likely to be produced for any given country situation, so the problem becomes that of interpreting a diverse array of information.

The framework described in this Note was designed to improve the way policymakers utilize country assessments. By extracting the key issues from each assessment and identifying how different types of issues may evolve into instability or regime change, we may be able to improve short-term forecasting.

The assessments of the situation in the Philippines revealed a consensus on the key issues affecting the future of the country. However, none of the assessments foresaw the speed with which developments would take place during the winter of 1986.

As other countries experience various forms of internal stress, it will become important not only to distinguish among the potentials of different types of issues for instability or regime change, but also to understand how quickly those developments may occur.

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